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2011 YEAR-END INCOME TAX PLANNING FOR INDIVIDUALS

INTRODUCTION

As the end of 2011 approaches, there are many actions to consider that could reduce your 2011 taxes. Year-end planning is particularly challenging this year given the growing national debate over comprehensive tax reform, the rapid pace of recent tax law changes, and the extensive list of current tax breaks that are scheduled to ***expire at the end of 2011.*** Regardless of these looming uncertainties, there are many "time-tested" year-end tax savings techniques that you should consider ***for 2011.***

We are sending you this letter to remind you of the *traditional* year-end tax planning strategies that help lower your taxable income and postpone the payment of your taxes to later years. In this letter we also help you navigate the many *new* tax planning opportunities available to individuals under recent law changes. **Planning Alert!** Since many tax breaks are currently scheduled to ***expire after 2011*** (and others ***after 2012),*** it is extremely important that you act timely to obtain maximum benefits! **Tax Tip.** Even though the weak economy has caused a drop in the income of many individuals, this decrease in income may actually produce additional tax benefits. If your income is down for 2011 as compared to recent years, you may be eligible for deductions and credits that you did not get in previous years because your income exceeded the phase-out thresholds. So, ***please pay close attention to the income thresholds*** for the various deductions and credits discussed in this letter, which we ***highlight prominently*** in each section.

To help you locate items of interest, we have divided planning ideas into the following topics:

- Significant Tax Breaks Expiring After 2011
- Consider Future Tax Rates Before Deferring Income
- Postponing Taxable Income

- Should You Convert Your "Traditional" IRA To A "Roth" IRA?
- Taking Advantage Of Deductions
- Year-End Tax Planning For Investors
- Miscellaneous Year-End Tax Planning Opportunities

Caution! Tax planning strategies suggested in this letter may subject you to an unexpected alternative minimum tax (AMT). For example, many deductions are not allowed for AMT purposes, such as: personal exemptions, the standard deduction, state and local income taxes, and real estate taxes. Also, AMT can be triggered by taking large capital gains, having high levels of dividend income, or exercising incentive stock options. Therefore, **we suggest that you call our firm before implementing any tax planning technique discussed in this letter.** You cannot properly evaluate a particular planning strategy without calculating your overall tax liability (including the AMT and any state income tax) with and without that strategy. **Please Note!** This letter contains ideas for Federal income tax planning only. **State income tax issues are not addressed.**

SIGNIFICANT TAX BREAKS EXPIRING AFTER 2011

A host of current tax breaks for individual taxpayers are scheduled to expire at the ***end of 2011*****,** unless Congress takes action to extend these provisions. **Caution!** Although Congress has traditionally extended a majority of expiring tax breaks in the past, there is no guarantee that Congress will do so in the future. **Tax Tip.** Regardless of how Congress ultimately addresses these expiring tax breaks, there are real tax savings available if you take advantage of these provisions **before the end of 2011.** The following are some of the more popular tax breaks that we have enjoyed over the past several years, but are ***currently scheduled to expire after 2011*****: 1)** school teachers' deduction (up to $250) for certain school supplies; **2)** election to deduct state and local sales tax; **3)** deduction (up to $4,000) for qualified higher education expenses; **4)** higher deduction and carryover limits for charitable contributions of "conservation easements"; **5)** deduction for home mortgage "insurance premiums"; **6)** "District of Columbia" first-time homebuyer's credit; **7)** tax-free transfers from IRAs to charities for those at least age 70½, **8)** temporary exclusion of 100% of gain on the sale of certain small business stock; **9**) 2% Social Security tax holiday; **10)** "refundable" adoption credit; **11)** increased AMT exemptions; and **12)** credit for energy-efficient improvements to your principal residence. (**Caution!** This 30% credit of up to $1,500 cumulative for 2009 and 2010 dropped to a maximum life-time credit of $500 for installations during 2011).

Planning Alert! If you would like to take advantage of any of these provisions, but you need more information, please call our office so we can help you take the necessary steps to lock in these deductions before it is too late. The following provides more details on several of these expiring items that warrant special attention as we approach the end of 2011:

Two Percent Social Security Tax Holiday For "2011 Only." For **2011 only**, there is *a 2%* reduction in Social Security taxes for both employees and self-employed individuals. Therefore, **if you are an employee**, your take-home pay for 2011 is generally being increased by 2% of each dollar of compensation that you earn. However, since Social Security taxes apply only to the first $106,800 of compensation in 2011, your maximum savings will generally be $2,136 (i.e., $106,800 x 2%). Likewise, if you are self-employed, your Social Security taxes are reduced by 2% of your self-employment income for 2011 (up to $106,800). Therefore, if your self-employment income is $106,800 or more, your self-employment taxes will be reduced by $2,136. **Tax Tip!** Accelerating 2012 compensation or self-employed income ***into 2011*** will save you 2% on your Social Security tax to the extent the income acceleration does not cause you to exceed the $106,800 earned income cap.

Adoption Credit Increased And Made Refundable For 2010 And 2011. **For tax years beginning in 2010 and 2011,** the maximum adoption tax credit was **increased to $13,360 (for 2011) per child,** and the credit was made *"refundable"* (this generally means if the credit exceeds your income taxes before the credit, the IRS will send you a check for the excess). **For 2011,** the adoption credit is phased-out as your modified adjusted gross income increases from **$185,210 to $225,210** (whether you're married filing a joint return, or single). Tax Tip. Generally, for *"domestic"* adoptions, you are allowed the adoption credit in the tax year *following the year* the qualifying adoption expenses are "paid." However, the credit is allowed for adoption expenses paid in the same tax year that the adoption is finalized. Therefore, qualified expenses for a "domestic" adoption paid **during 2011** will generally result in a credit **in 2012** (when the credit is no longer refundable). However, if you can *finalize* the adoption on or before **December 31, 2011,** your **2011 expenses** will qualify for the credit **in 2011** and the credit will be refundable if you have insufficient tax to utilize the credit. Foreign Adoptions. Adoption expenses for a child who is not a citizen or resident of the United States, do not qualify for the adoption credit unless and until the adoption is actually *finalized*. Consequently, if you are pursuing the adoption of a foreign child, you will be entitled to the adoption credit for 2011 ***only if*** you finalize the adoption *by* the *end of 2011.* Tax Alert! As mentioned above, for 2012, the adoption credit is scheduled to be **reduced to $12,650** and **will not be refundable.**

Tax-Free IRA Payments To Charities If You Are At Least 70½. For the past several years, we have had a popular (but *temporary*) rule that allows taxpayers, who have reached age 70½, to have their IRA trustee contribute up to $100,000 from their IRAs directly to a qualified charity, and exclude the distribution from income. Planning Alert! To qualify, the check from your IRA must be made out "directly" to your designated charity. Since this tax break is currently scheduled to **expire after 2011,** you should make arrangements for the transfer with your IRA trustee ***well before the end of 2011*** if you want to take advantage of this provision.

The Qualified Tuition Deduction. If you pay for *qualified* higher education tuition and fees for yourself, your spouse, or your dependents, you may qualify for an education expense deduction. This maximum $4,000 deduction is available whether or not you itemize. You are allowed the maximum $4,000 deduction only if your adjusted gross income ("AGI") does not exceed $130,000 on a joint return ($65,000 if single). If your AGI is between $130,000 and $160,000 ($65,000 and $80,000 if you're single) your maximum deduction drops to $2,000. **Caution!** If your AGI exceeds $160,000 (if joint) or $80,000 (if single) by even $1, the entire deduction is lost. **Planning Alert!** This deduction is **currently scheduled to expire after 2011.** Even though Congress has extended this provision in prior years when it was scheduled to expire, there is no guarantee that it will do so again. **Tax Tip.** If you expect to take this deduction and your income is close to the $130,000 or $160,000 limits ($65,000 or $80,000 if you're single), we should discuss your situation and see if we can take steps to keep your income below those thresholds **for 2011.**

CONSIDER FUTURE TAX RATES BEFORE DEFERRING INCOME

Classic year-end tax planning typically includes strategies that lower your current taxable income and postpone the payment of taxes to later years. A traditional technique to accomplish both of these goals is to defer the current recognition of taxable income to later years. However, as you consider any tax strategy that would defer taxable income beyond 2011, please keep in mind that individual tax rates are scheduled to increase ***after 2012.***

Currently Scheduled Tax Rate Increases. Over the past several months, President Obama has proposed several tax increases on higher-income taxpayers as part of his deficit reduction proposals. Because of the political uncertainty of these proposals, it is impossible to predict with any certainty what the tax rates will be in the future. However, the existing individual income tax rates for all income levels are currently scheduled to remain in place ***through 2012.*** Consequently, the current 10% through 35% tax brackets for ordinary income, and the maximum 15% tax rate for long-term capital gains and qualified dividends (zero percent if the dividends or capital gains would otherwise fall in the 10% or 15% tax brackets) **continue through 2012.** **Caution!** Starting ***in 2013*****,** absent Congressional action, the top individual income tax rates will generally increase to: **1)** 39.6% for ordinary income; **2)** 39.6% for qualified dividends; and **3)** 20% for long-term capital gains. **Planning Alert!** In addition, starting ***in 2013,*** the *Health Care Act* imposes a new Medicare Surtax of 3.8% on the *investment income* (e.g., interest, dividends, capital gains) of higher-income individuals, and a Medicare Surtax of .9% on the *earned income* (e.g., W-2 income, self-employment income) of higher-income individuals.

POSTPONING TAXABLE INCOME

Since currently scheduled tax rate increases do not occur **until 2013**, it continues to be a good idea to defer income into 2012 if you believe that your marginal tax rate for 2012 will be equal to or less than your 2011 marginal tax rate. Also, deferring income into 2012 could increase various credits and deductions for 2011 that would otherwise be phased out as your adjusted gross income increases. **Tax Tip.** This classic tax planning strategy may be particularly valuable for 2011 if it also keeps your 2011 income below the phase-out thresholds for the many tax breaks that are currently scheduled to expire after 2011 (e.g., "refundable adoption credit, $4,000 qualified higher education expense deduction, deduction for home mortgage "insurance premiums"). If, after considering your anticipated 2012 tax rates, you believe that deferring taxable income into 2012 will save you taxes, consider the following strategies:

Self-Employed Business Income. If you are self-employed and use the cash method of accounting, consider delaying year-end billings to defer income until 2012. **Planning Alert!** If you have already received the check in 2011, deferring the deposit does not defer the income. Also, you may not want to defer billing if you believe this will increase your risk of not getting paid.

IRA Owners Who Attain Age 70½ During 2011. If you reached age 70½ at any time during 2011, although you may take your first required distribution from a traditional IRA before the end of 2011, you are allowed to take the first payment as late as **April 1, 2012**, without penalty. **Planning Alert!** If you wait until 2012 to take your first payment, you will still be required to take your second required minimum distribution no later than December 31, 2012, which will cause you to take two payments in 2012. This "bunching" of the first two annual payments into one tax year (2012) could cause your income to be taxed in a higher tax bracket and, therefore, result in more overall tax than if you received the first required payment in 2011. **Tax Tip.** If you reached age 70½ in 2011, and you own an IRA or other qualified retirement account, please call us and we will help you navigate these rules to your best advantage.

Rollovers By Surviving Spouses. If an individual ***over age 70½*** died during 2011 and the beneficiary of the decedent's IRA or qualified plan is the surviving spouse, and the *surviving spouse **is over 59½,*** the *surviving spouse* should consider rolling the decedent's qualified plan or IRA amount into his or her name **on or before December 31, 2011.** If the decedent's retirement account is rolled into an IRA in the surviving spouse's name **before 2012**, then **1)** provided the surviving spouse has not reached age 70½, no distributions are required in 2012, and **2)** if the surviving spouse is at least 70½, the required minimum distribution in 2012 will be determined using the Uniform Lifetime Distribution Table that results in a smaller annual required payout. **Therefore, converting the account into the surviving spouse's name on or before December 31, 2011, could substantially reduce the amount of the required minimum distribution for 2012 where the decedent was at least 70½.** **Planning Alert!** These rules are complicated and can create tax traps for the ill advised. Please call our office before you take any actions so we can advise you on how these rules apply to your particular situation.

SHOULD YOU CONVERT YOUR "TRADITIONAL IRA" TO A "ROTH IRA?"

Although postponing taxable income can frequently save you overall taxes, some tax saving strategies may actually result in accelerating taxable income. A common example of this involves your decision to convert your traditional IRA into a Roth IRA. When you convert a traditional IRA to a Roth IRA, you generally must pay tax on the amount converted as if you withdrew the funds from the traditional IRA.

Should You Convert In 2011? Whether to convert (rollover) your traditional IRA to a Roth IRA (Roth conversion) continues to be a hot topic, and there are many variables that impact this decision. Probably the most significant is your current tax rates as compared to the rates in effect when the funds are withdrawn from the IRA. Therefore, uncertainty as to future tax rates creates a significant amount of uncertainty as to whether a Roth conversion is right for you. **Tax Tip.** If the recession has caused a significant, but temporary, decline in your income for 2011, you may be a good candidate for converting all or a portion of your regular IRA to a Roth. This is particularly true if: **1)** your temporary drop in 2011 income places you in a much lower tax bracket than you expect when the funds are withdrawn from the IRA, **2)** you believe that the value of your IRA is currently at or near an all time low, **3)** you expect your IRA to appreciate in the relatively near future, and **4)** you have funds outside the IRA to pay the income taxes caused by the conversion. **Planning Alert!** If you want the conversion to be **effective for 2011**, you must transfer the amount from the regular IRA to the Roth IRA **no later than December 31, 2011** (you do not have until the due date of your 2011 tax return). **Caution!** Don't attempt a Roth conversion or implement a Roth conversion strategy **without calling us first.** There is a host of factors you should evaluate before deciding to convert your traditional IRA to a Roth.

TAKING ADVANTAGE OF DEDUCTIONS

Accelerating "Above-The-Line" Deductions Into 2011. As a cash method taxpayer, you can generally accelerate a 2012 deduction into 2011 by "paying" it in 2011. Accelerating an **"above-the-line"** deduction (e.g., IRA or Health Savings Account (HSA) deduction, health insurance premiums for self-employed individuals, qualified student loan interest, qualified tuition deduction, qualified moving expenses, deductible alimony) into 2011 may allow you to reduce your "adjusted gross income" (AGI) below the thresholds needed to qualify for many other tax benefits (e.g., child credit, education credits, adoption credit, ability to contribute to a deductible IRA, etc). However, **"itemized"** deductions (i.e., below-the-line deductions) do **not** reduce your "adjusted gross income" and, therefore, will not affect your 2011 deductions and credits that are reduced as your income increases. *Itemized deductions* generally include charitable contributions, state and local income and property taxes, medical expenses, unreimbursed employee travel expenses, and home mortgage interest. **Tax Tip.** "Payment" typically occurs in 2011 if a check is delivered to the post office, if your electronic payment is debited to your account, or if an item is charged on a *third-party credit card* (e.g., Visa, Mastercard, Discover, American Express) in 2011. **Be careful,** if you post-date the check to 2012 or if your check is rejected, no payment has been made in 2011. **Planning Alert!** The IRS says that prepayments of expenses applicable to periods beyond 12 months after the payment will not be deductible in 2011.

Accelerating "Itemized" Deductions Into 2011. If your itemized deductions fail to exceed your standard deduction in most years, you are not receiving maximum benefit for your itemized deductions. You could possibly reduce your taxes over the long term by bunching the payment of your itemized deductions in alternate tax years. This may produce tax savings by allowing you to itemize deductions in the years when your expenses are bunched, and use the standard deduction in other years. **Tax Tip.** The easiest deductions to shift from 2012 to 2011 are *charitable contributions*, *state and local taxes*, and your January, 2012 home *mortgage interest payment*. For 2011, the standard deduction is $11,600 on a joint return and $5,800 for single individuals. If you are blind or age 65, you get an additional standard deduction of $1,150 if you're married ($1,450 if single). **Watch Out For AMT!** Certain itemized deductions are not allowed in computing your alternative minimum tax (AMT), such as state and local taxes (including state income taxes) and unreimbursed employee business expenses. Before you accelerate 2012 itemized deductions into 2011, to be safe, we should first do a "with and without" computation so we can determine the AMT impact of this strategy.

Charitable Contributions. A charitable contribution deduction is allowed for 2011 if the check is mailed **on or before December 31, 2011,** or the contribution is made by a credit card charge in 2011. However, if you merely give a note or a pledge to a charity, no deduction is allowed until you pay off the note or pledge. **Tax Tip.** If you are considering a significant 2011 contribution to a public charity funded by an investment you own, it will generally save you taxes if you contribute appreciated ***long-term capital gain property,*** rather than selling the property and contributing the cash proceeds to charity. By contributing capital gain property held more than one year (e.g., appreciated stock, real estate, etc.), a deduction is generally allowed for the full value of the property, but no tax is due on the appreciation. **Tax Alert!** Deductions for charitable contributions are allowed only if you have proper documentation for the contribution (i.e., generally a receipt containing the information required by the IRS). In addition, for contributions of property in excess of $5,000 IRS requires a qualified appraisal.

Maximizing Home Mortgage Interest Deduction. You can increase your home mortgage interest deduction by paying your January, 2012 payment **on or before December 31, 2011.** Typically, the January mortgage payment includes interest that was accrued in December and, therefore, is deductible if paid in December. **Planning Alert!** Make sure that you send in your January, 2012 mortgage payment early enough in December for your lender to actually receive it before year-end. That way, your lender will be sure to reflect that last payment on your 2011 Form 1098, and we can avoid a matching problem on your 2011 return.

State And Local Taxes. Consider paying your sate and local income taxes (fourth quarter estimate and balance due for 2011) and any property taxes for 2011 **prior to January 1, 2012. Planning Alert!** State and local income and property taxes are not deductible for AMT purposes. Consequently, you should not employ this tactic without carefully calculating the alternative minimum tax impact. Also, "overpayment" of your 2011 state and local income taxes is generally not advisable particularly if a refund in 2012 from a 2011 overpayment will be taxed at a higher rate than the 2011 deduction rate. **Please consult us before you overpay state or local income taxes!**

YEAR-END TAX PLANNING FOR INVESTORS

Planning With Capital Gains And Losses. Generally, the current maximum long-term capital gains rate of 15% **is scheduled to continue through 2012.** Also **through 2012**, lower-income taxpayers who have long-term capital gains that would otherwise be included in the 15% or lower ordinary income tax bracket, are taxed at a zero percent rate. **Tax Tip.** Timing your year-end sales of stocks, bonds, or other securities may save you taxes. **After fully evaluating the economic factors**, the following are time-tested, year-end tax planning ideas for sales of capital assets. **Planning Alert!** Always consider the economics of a sale or exchange **first!**

- **Timing Your Capital Gains And Losses.** If you have already recognized capital gains in 2011, you should consider selling securities that have declined in value **prior to January 1, 2012.** These losses will be deductible on your 2011 return to the extent of your recognized capital gains, plus $3,000. **Tax Tip.** These losses may have the added benefit of reducing your income to a level that will qualify you for other tax breaks, such as the: $2,500 American Opportunity Tuition Tax Credit, $1,000 child credit, $13,360 adoption credit, etc. **Planning Alert!** If within 30 days before or after the sale of loss securities, you acquire the same securities, the loss will not be allowed currently because of the "wash sale" rules (although the disallowed loss will increase the basis of the acquired stock). **Tax Tip.** There is *no* wash sale rule for *gains*. Thus, if you decide to sell stock at a gain in order to take advantage of a zero capital gains rate, or to absorb capital losses, you may acquire the same securities within 30 days without impacting the recognition of the gain.

- **Making The Most Of Capital Losses.** Many investors still have substantial loss carry forwards coming into 2011. If your stock sales to date have created a *net* capital loss exceeding $3,000, consider selling enough appreciated securities **before the end of 2011** to decrease your net capital loss to $3,000. Stocks that you think have reached their peak would be good candidates. All else being equal, you should sell the short-term gain (held 12 months or less) securities first. This will allow your *net* capital loss (in excess of $3,000) to offset your short-term capital gain, while preserving your favorable long-term capital gain treatment for later years.

Exercising Incentive Stock Options (ISOs) Could Trigger AMT. Exercising an incentive stock option (ISO) in 2011 can generate a 2011 alternative minimum tax (AMT) if the difference between the stock's value and the exercise price is substantial. **Tax Tip.** If you exercised an ISO **in 2011** and the stock you acquired has declined in value since the date of exercise, it may be possible to eliminate or reduce your 2011 AMT tax liability if you sell the stock **on or before December 31, 2011.** Please check with us if you have exercised incentive stock options during 2011 and the price of the stock has fallen since the date of exercise.

MISCELLANEOUS YEAR-END TAX PLANNING OPPORTUNITIES

As you develop your 2011 tax year-end planning strategies, don't overlook the following tax savings opportunities:

"American Opportunity Education Tax Credit" (Formerly "Hope Credit"). For 2009 through 2012, you may qualify for the *"American Opportunity Tax Credit"* for qualifying college tuition and course materials for yourself, your spouse, and your dependent children. The maximum credit for each student is $2,500 (100% of the 1st $2,000 of qualifying education expenses plus 25% of the next $2,000 of qualifying expenses), and is allowed for up to *four* years (i.e., generally, freshman through senior years). The credit phases out as your modified adjusted gross income increases **from $160,000 to $180,000 for those filing joint returns** and from **$80,000 to $90,000 for single filers. Planning Alert!** To get the full $2,500 credit for 2011, you must pay qualifying expenses of at least $4,000 for the student **by December 31, 2011.** For example, if you paid tuition and books of $2,500 for the fall, 2011 semester for a college freshman, you would need to pay tuition of at least $1,500 for the spring, 2012 semester by **December 31, 2011,** to get the full credit of $2,500 for 2011.

The Lifetime Learning Credit. The *Lifetime Learning tax credit* equals 20% of the first $10,000 of qualified higher education tuition and fees. The credit phases out ratably as your modified adjusted gross income increases from **$102,000 to $122,000** on a joint return (**$51,000 to $61,000** on a single return). The Lifetime Learning credit is for an unlimited number of years and can be used for graduate or professional degrees (as well as undergraduate education). However, the Lifetime Learning credit **limitation of $2,000 is per tax return, not per student.** <u>**Planning Alert!**</u> If your income **is more than $122,000 ($61,000 on a single return)**, you do not qualify for the Lifetime Learning credit. However, the IRS says the student (e.g., your child) may claim the credit on his or her return, provided you elect not to claim that child as a dependent on your tax return (even if the child otherwise qualifies as your dependent). Since the Lifetime Learning credit is a *non-refundable* credit, your child must have sufficient income tax liability to utilize the credit on his or her return.

<u>**Maximize Tax-Favored Medical Benefits For Children Under Age 27.**</u> **Effective March 30, 2010,** an employer-provided health plan may provide tax-free reimbursements to an employee's child **who is under age 27** *at the end of the tax year*. This exclusion applies even if the taxpayer cannot claim the child as a dependent for tax purposes. Previously, an employer could only reimburse "tax free" the medical expenses of an employee, the employee's spouse, and the employee's dependents. <u>**Tax Tip.**</u> If your employer's health insurance plan is currently covering your child who will turn age 27 in 2012, accelerating discretionary medical expenses for that child from **2012 to 2011** will allow your employer's 2011 reimbursements to be tax-free.

In addition, if you are self-employed, you may take an "above-the-line" deduction (i.e., unrestricted by the limitations on "itemized deductions") for health insurance premiums that you pay for your child who is **under age 27** at the **end of the year,** even if the child is not your "dependent" for tax purposes.

<u>**Planning With The "Kiddie Tax."**</u> A child who *is not filing a joint return with a spouse* will have his or her unearned income (e.g., interest, dividends, and capital gains) in excess of the *threshold amount* ($1,900 for 2011), taxed at the *parents' tax rate* if: **1)**The child **has not attained age 18** by the *close of the tax year*; **OR 2)** The child **is age 18** by the *close of the tax year* AND the child's **earned income does not exceed one-half the child's support**; **OR 3)** The child is **age 19 through 23** by the *close of the tax year* AND the child is a full-time student AND the child's earned income does not exceed one-half the child's support. <u>**Planning Alert!**</u> College students who are subject to this so-called *kiddie tax* will not be able *to* sell their appreciated capital gain property (for example to cover tuition), and pay tax at their lower tax rates to the extent their interest, dividends and capital gains exceed $1,900. <u>**Tax Tip.**</u> Since a child's *earned income* is not taxed at the parents' tax rates, parents may save taxes by employing a child in the parent's business and paying the child *reasonable* compensation. The child's earnings won't be subject to tax at the parent's rates under the kiddie tax rules and the earnings should be deductible by the business. Also, if the child is over age 17 and the earnings exceed one-half of his or her support, the child would also avoid the kiddie tax exposure for any unearned income.

<u>**Consider Utilizing The $13,000 Annual Gift Tax Exclusion.**</u> For individuals dying in **2011 or 2012**, there is generally a **35%** estate tax to the extent the estate's value plus any taxable gifts made during the decedent's life exceed **$5 million** (the "estate and gift unified exclusion amount"). This current $5 million *exclusion amount* is scheduled to **drop to $1 million** for gifts made and for estates of individuals dying **after 2012,** and the top estate

and gift tax rate is scheduled to **increase to 55%.** **Tax Tip.** You can reduce your estate without using any of the unified exclusion amount and without making taxable gifts by making annual gifts up to the annual gift tax exclusion amount of $13,000 per donee. Your spouse can do the same, bringing the total gifts that can be made free of gift tax and without using any of the unified exclusion amount to $26,000 per donee. **Planning Alert!** If you make your 2011 gift by check, the IRS says that the donee must actually "deposit" the check **by December 31, 2011** in order to utilize the 2011 $13,000 annual gift tax exclusion. Therefore if gifts are made near the end of the year, you should consider making the gifts using a cashier's check which should constitute a gift when the check is delivered.

FINAL COMMENTS

Please contact us if you are interested in a tax topic that we did not discuss. Tax law is constantly changing due to new legislation, cases, regulations, and IRS rulings. Our firm closely monitors these changes. In addition, please call us before implementing any planning ideas discussed in this letter, or if you need additional information. Note! The information contained in this letter represents a general overview of tax developments and should not be relied upon without an independent, professional analysis of how any of these provisions may apply to a specific situation.

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